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BOSTON'S FY01 BUDGET***Challenges of Managing in a Time of Higher Expectations***

Mayor Menino's recommended FY01 operational budget for the City continues the commitment to education, public safety and improving the quality of life in Boston's neighborhoods. These choices are made when expectations to do more are high in this time of economic prosperity. The FY01 general fund budget totals \$1.691 billion, an increase of \$85.8 million or 5.3% over FY00. Grants and other external funds of at least \$341.2 million are expected to be received, bringing the City's all-funds budget to \$2.032 billion. The Mayor did not include the \$25 million he pledged for housing programs in this budget since no plan for these funds has been developed and the funds are not yet available. Only partial funding for collective bargaining increases is included. Efforts to re-allocate resources in this budget for other needs such as housing will require cuts in 8 major accounts that represent over 80% of the budget.

New Initiatives

A few new initiatives in the budget are worth noting. In response to the need to improve the BRA's planning and research capacity, this budget provides a new special appropriation of \$725,000 for the BRA. However, this increase is offset by a reduction of \$600,000 from the capital budget intended for administrative purposes, producing a net increase of only \$125,000 for the BRA. For the last two years, the Administration prudently has taken steps to reduce its reliance on capital funds for operational expenses. The first step in enhancing the BRA's planning function is the search and selection of a new Chief Planner. "Pave the Way 2000", an enhanced neighborhood street-paving program initiated in 1999, continues into its second year. A greater emphasis is being placed on cultural activities with the City's cultural affairs budget increasing by \$278,178 or 37%. Lastly, the BPS will expand remedial math services now offered as part of its transitional support program that was initiated last year primarily to improve reading performance.

City Budget Overview

Less than 10 budget accounts dominate the City's operating budget that altogether consists of 66 separate departmental, agency and service accounts. For the FY01 budget, 8 accounts represent 83% of the \$1.7 billion budget allocation (see table 1). A modified group of 6 accounts represent 88% of the growth of \$85.8 million (see table 2). That leaves the balance of \$10.7 million in new funding to be allocated among the remaining 60 accounts.

The largest budget is the School Department at \$592.9 million, which increased by \$17.6 million or 3.1%. This doesn't include collective bargaining contracts not yet settled, particularly the teachers union agreement that alone could push the BPS increase to 5%. Debt service costs increased by \$18.5 million or 19%. A reserve of \$13.7 million is established to provide a partial base for collective bargaining increases. The Administration is now negotiating new contracts with most of the City's unions. The approximately 55 departments or services outside the group of 8 and the collective bargaining reserve, received an average annual budget increase of about \$150,000 or 3%. The fact that government is a labor intensive operation is demonstrated by the fact that 68% of the FY01 budget is for personal services, which includes salaries and benefits.

LARGEST BUDGET ACCOUNTS**TABLE 1 (\$000's)**

Department	FY00 Budget	FY01 Budget	Change	% Change	% of Total
1 Schools	\$575,327	\$592,954	\$17,627	3.1%	35.1%
2 Police	204,007	213,446	9,439	4.6%	12.6%
3 Retirement Board	128,659	136,790	8,131	6.3%	8.1%
4 Fire	115,938	117,414	1,476	1.3%	6.9%
5 Debt Service	96,440	114,920	18,480	19.2%	6.8%
6 Health Insurance (City & County)	81,300	89,430	8,130	10.0%	5.3%
7 Public Works/Snow Removal	67,977	68,362	385	0.6%	4.0%
8 State Assessments (MBTA)	67,252	67,270	18	0.0%	4.0%
Sub-Total	\$1,336,901	\$1,400,586	\$63,685	4.8%	82.8%
Grand Total	\$1,605,422	\$1,691,226	\$85,803	5.3%	100.0%

Workforce Increase

The FY01 budget provides for 17,374 full-time equivalent (FTE) positions, an increase of 70 positions, by far the smallest position increase of any of the Mayor's seven budgets. The position increases recommended in the Mayor's FY99 and FY00 budgets were 690 and 310 respectively. Departments like Schools and Police that drove position increases in the past have budgeted relatively no increases in FY01. Over the past few years, the Bureau has expressed concern about the significant increase in city personnel levels and the consequent spending growth. The City's actual workforce number will increase if employees are hired to fill budgeted but unfilled positions. Also, adjustments in the school budget after the final state aid number for Boston is determined could result in position increases. At this time, the FY01 BPS budget supports 8,383 budgeted positions, an increase of 288 over those actually working in January 2000 but only 4 over the FY00 budget.

Revenue Budget

Estimated general fund revenues for FY01 total \$1.691 billion, an increase of \$85.8 million or 5.3% over the current year. City revenue estimates have dictated spending levels since it has been the City's practice to build a budget on the total property tax levy and state aid available with moderate to conservative estimates for other revenue sources.

Boston is dependent on two revenue sources for 83% of its total general fund revenues: the property tax and state aid (see table 3). These two sources account for 75% of the total general fund revenue increase of \$85.8 million in FY01. The property tax reflects the expected growth of \$49.6 million or 5.7% while state aid, based on the House budget, is anticipated to increase by \$15 million or 2.9%. That is a \$30 million swing from the \$15 million local aid cut city officials were concerned about earlier. Even so, the growth in Boston's local aid this year and next are significantly less than amounts received over the prior four years which averaged \$28.7 million. The levy growth is divided between the normal 2½% increase of \$21.6 million and new growth of \$28 million or 56%. Boston's Chapter 70 school aid is expected to increase slightly when the state budget is finalized.

Capital Budget

For capital purposes, the Administration has recommended a five-year capital program totaling \$1.445 billion. The City's general obligation borrowing will finance 71% of the total with state, federal, trust and other funds providing the balance. From the bonds and notes it borrows, the Administration has budgeted expenditures of \$152.2 million in FY01. However, in anticipation of normal planning and construction delays, the Administration expects to spend \$120 million and will sell bonds for that amount during the year. That will require the Administration to be diligent in managing actual capital expenditures. The start of building 3 new schools at an estimated cost of \$113.2 million will dominate capital spending over the next few years. This added spending creates a concern in that it will push a mainstay of the City's debt policy, keeping annual debt service within 7% of general fund expenditures, close to the edge this year with the likelihood that it will be exceeded in the following next few years. The dominance of school capital spending is demonstrated by the fact that of the \$160.5 million in new loan authorizations requested in this year's budget, loan orders for non-school projects total only \$47.3 million or 29% of the total.

LARGEST BUDGET INCREASE

TABLE 2 (\$000's)

Growth Area	FY00 Budget	FY01 Budget	Increase	% of Increase
1 Debt Service	\$96,440	\$114,920	\$18,480	21.5%
2 Schools	575,327	592,954	17,627	20.5%
3 Collective Bargaining Reserve	438	13,741	13,303	15.5%
4 Police	204,007	213,446	9,439	11.0%
5 Retirement Board	128,659	136,790	8,131	9.5%
6 Health Insurance	81,300	89,430	8,130	9.5%
Sub-Total	\$1,086,171	\$1,161,281	\$75,109	87.5%
Grand Total	\$1,605,422	\$1,691,226	\$85,803	100.0%

FY01 REVENUE SUMMARY

TABLE 3 (\$000's)

	FY01 Budget	Change	% Change	% of Total
Gross Property Tax	\$915,396	\$49,644	5.7%	54.1%
Overlay Reserve	(43,590)	(2,364)	5.7%	(2.6%)
Net Property Tax	\$871,806	\$47,280	5.7%	51.5%
State Revenues	\$523,785	\$14,994	2.9%	31.0%
All Other	105,669	9,820	10.2%	6.2%
Parking Fines	58,227	627	1.1%	3.4%
PILOTS	21,198	1,101	5.5%	1.3%
Investment Income	20,000	3,500	21.2%	1.2%
Vehicle/Boat Excise	37,345	6,325	20.4%	2.2%
Chapter 121A, Sect 10	27,996	1,362	5.1%	1.7%
Hotel/Motel Excise	25,200	1,300	5.4%	1.5%
Grand Total	\$1,691,226	\$85,803	5.3%	100.0%